MERLAND EXPLORATIONS LIMITED

ANNUAL REPORT
DECEMBER 31st, 1973

MERLAND EXPLORATIONS LIMITED

DIRECTORS' REPORT

TO THE SHAREHOLDERS

During 1973 Merland maintained a rapid rate of expansion in its oil and gas division and achieved dramatic increases in reserves and production capability. The Company expended $2.7 million on exploration and production drilling, gathering systems and plant equipment and has budgeted $3.5 million towards the 1974 programs. Results from the mining division showed some encouragement while the flooring division profits diminished.

The Company successfully negotiated the purchase of five privately owned Alberta gas companies having petroleum assets independently valued at an amount in excess of $4.5 million. The Company financed this purchase and the large scale development of its own properties through additional bank loans and the sale of $3.5 million of Company securities. A sale of property for $1 million together with increased bank lines of credit are expected to provide adequate funds to support the planned 1974 programs without resorting to other forms of financing.

The Company's gross reserves, before royalties, are estimated to be approximately 230 billion cubic feet of gas and 600,000 barrels of crude oil, or more than four times such reserves at December 31, 1972. Daily delivery potential is projected to increase to 35-40 million cubic feet of gas per day, net to Merland, during the course of the year.

Drilling activity in 1973 was intensive and the Company directly and indirectly participated in over 100 exploratory and development wells. 175 wells are planned to be drilled during this year, of which 100 will be under Merland's operational control. Nearly 25% of the drilling budgets are devoted to wildcat ventures most of which are already underway.

The newly acquired companies and our own producing plants began to generate income towards the end of last year and 1973 financial results do not, therefore, properly indicate 1974 and future production and sales. Price adjustments will have a very favourable impact on cash flow as new contracts are negotiated. Based on current tax and royalty provisions the Company feels that an annualized rate of cash flow in the order of 45 to 60 cents per share (on a fully diluted basis) is an achievable goal by the last quarter of 1974.

The technical staff has been enlarged at the Calgary office and the directors take this opportunity to welcome new members to the firm and to thank the employees of all divisions who have contributed so much to Merland's success.

Mr. Chas. Robinson, who has served faithfully as a member of the Board for many years, has retired and we wish to thank him for his constant support and contribution to the Company.

Sincerely,

George T. Smith, President

EXPLORATION AND DEVELOPMENT

Exploration emphasis remained primarily in Alberta where at year end the Company held interests in 420,000 gross acres for a net of 130,000 acres. The Voyager Petroleums Limited project, in which Merland has earned a 20% net working interest, drilled 35 wildcat wells, of which 20 are gas producers at Holden and North Hamilton Lake. Merland has invested 500 thousand dollars to date in this successful venture.

The Canus Petroleum Limited exploration program, which commenced at year end has to date made 5 oil discoveries out of the seven wells drilled in the Taber and Red Coulee, areas of Alberta. The intention of the operators is to drill 30 to 35 exploratory wells ranging in depth from 3,000 to 8,500 feet at a total cost of 3.5 million dollars over the next two and one half years. Merland has a 20% participation in this exciting oil and gas exploration project.

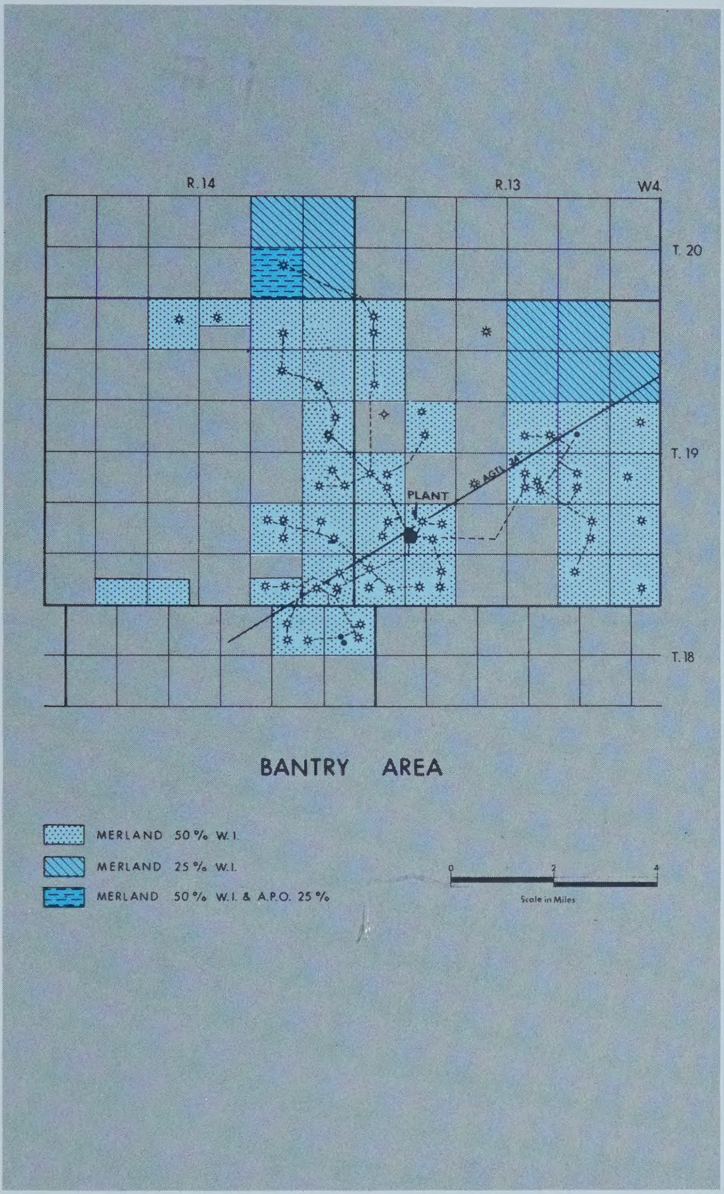
Merland participated in a number of successful drilling ventures on its properties at Westlock, Big Bend, Bantry, and Jarrow, all of which offer opportunities for development during 1974.

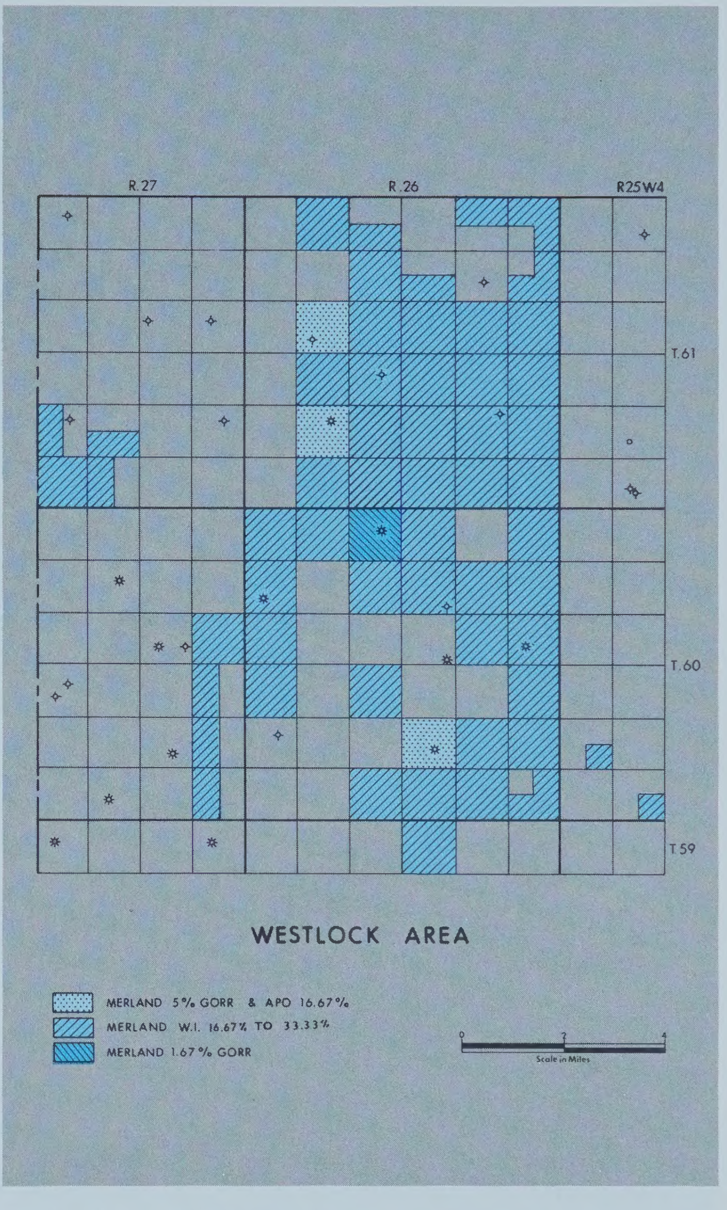
A major development program was undertaken last year at Bantry, Alberta which commenced gas deliveries at year end. Cost to date is approximately 3 million dollars and Merland as operator, has a 50% working interest.

In Saskatchewan, the Company has net interests in 50,000 acres but is waiting on clarification of government pricing policy before making any major commitments to properties other than Horsham. In the Hudson Bay, Aquitaine has a sizable exploration project planned for 1974 and this could well spark some interest in Merland's 62,000 net acres of offshore holdings.

Budgets for the current year include expenditures of nearly 3 million dollars for development drilling, pipelines, plant and equipment designed to expand production at Bantry, Bindloss, Medicine Hat, Holden, Hamilton Lake, South Alderson, Viking and Westlock in Alberta and Horsham, Saskatchewan. Approximately 750 thousand dollars will be devoted to exploration for Company and partnership ventures.

On the following four pages we have highlighted with maps those areas where Merland's capital investment is already substantial and where intensive expansion activity is underway.





BANTRY

Acreage: 26,400 (gross) — 13,200 (net)

In 1973 Merland, as operator, completed fifty-seven Milk River-Medicine Hat formation wells, installed a 2,000 h.p. compressor station, dehydration facilities and a thirty-one-mile gathering system. Six deeper Mississippian tests were also drilled, resulting in two gas and two oil discoveries.

During 1974, in addition to expanding compression and gathering facilities, the Company plans to drill a further twenty-three Milk River-Medicine Hat wells and two more Mississippian exploratory wells.

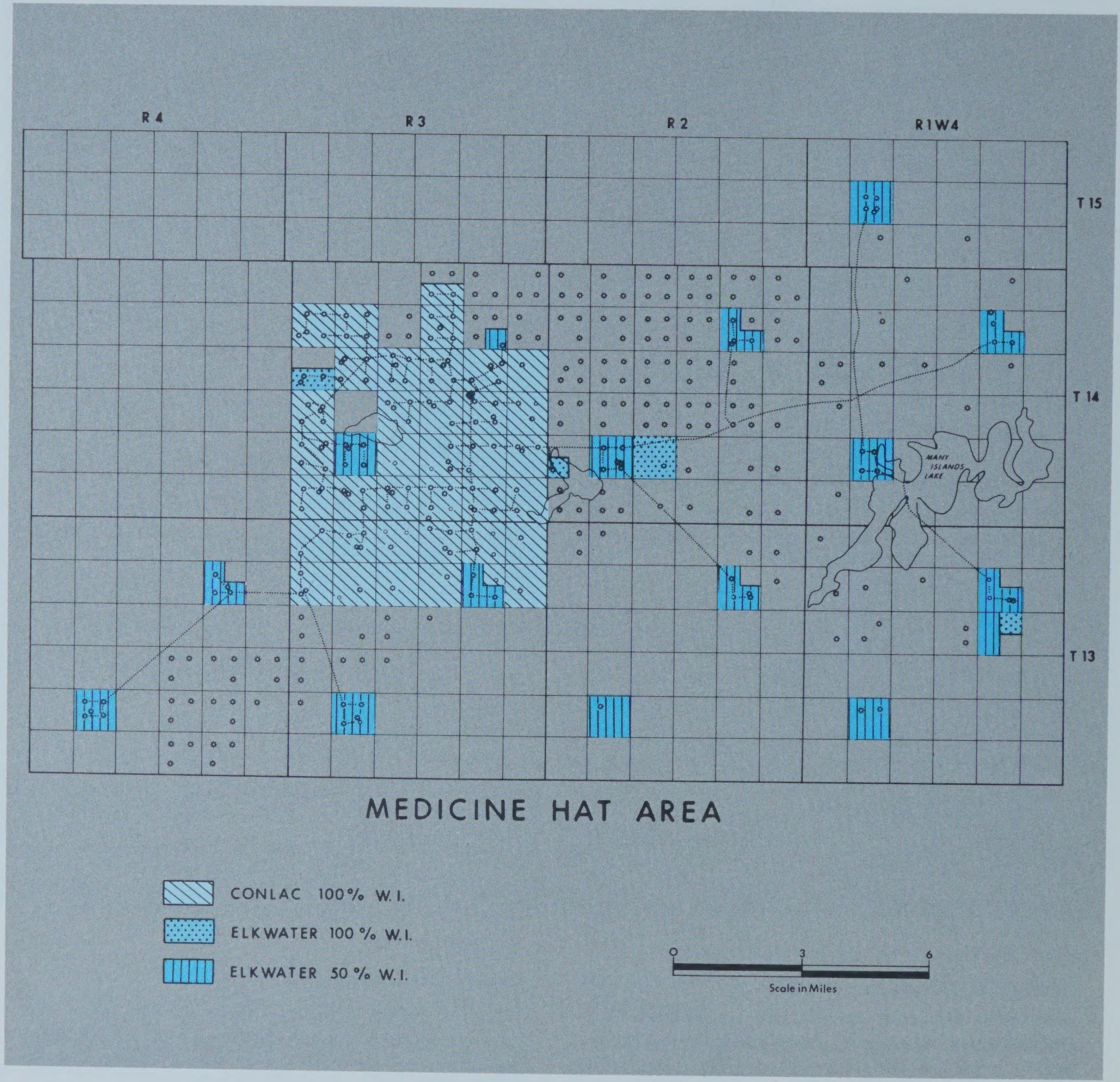
The current phase of development work is designed to increase gas production from 13 million cubic feet per day to 20 million cubic feet, with Merland's share being 8.4 million cubic feet.

WESTLOCK

Acreage: 33,760 (gross) — 8,100 (net)

By the end of 1973 four natural gas discoveries and one dry hole had been drilled. Three of the tests, including the dry hole, were drilled at no cost to Merland.

In 1974 Canada Northwest Land, as the operator, plan to drill five additional wells. Gas production should commence in the fourth quarter with Merland's share amounting to approximately one million cubic feet per day.



CONLAC

Acreage: 22,880 (gross) – 22,880 (net)

By the end of 1973 the Company had drilled eighty-six Milk River formation gas wells, which are presently producing 10.6 million cubic feet per day, net to Merland.

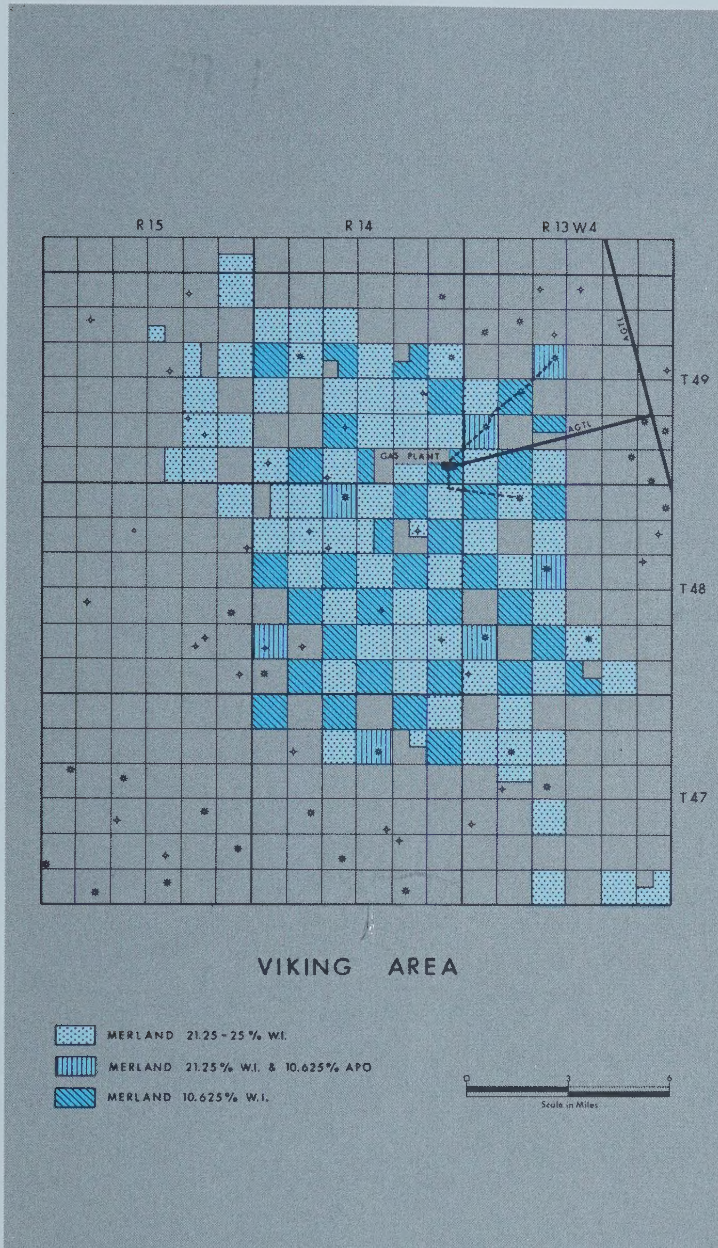
Current production capability is 13.5 million cubic feet per day and a number of wells will be drilled during 1974 to maintain and expand the potential of this field.

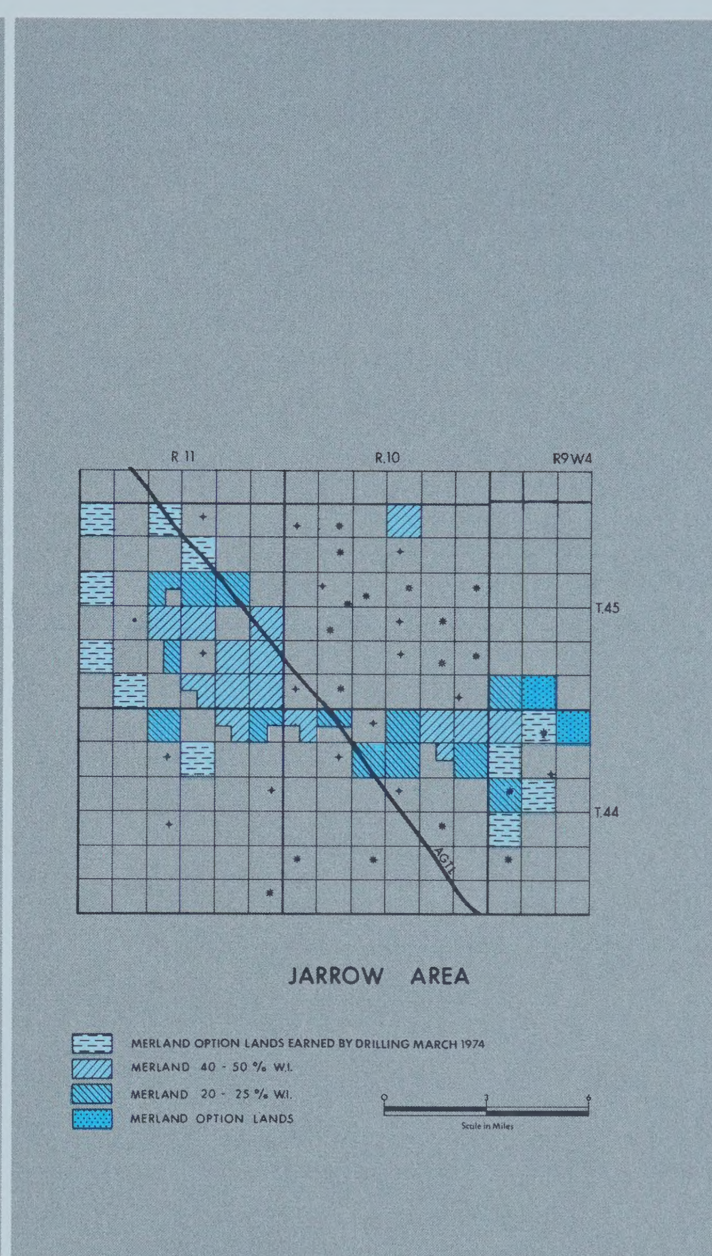
ELKWATER

Acreage: 8,320 (gross) – 4,700 (net)

By the end of 1973 forty-six Milk River gas wells had been drilled and tied into the Conlac plant by a thirty-two mile gathering system.

During 1974 Merland, as operator, plan to drill nine additional wells to supply a recently negotiated contract for 8 million cubic feet per day, of which 4 million cubic feet per day will be net to the Company.





VIKING

Acreage: 63,000 (gross) — 13,400 (net)

By the end of 1973 Merland had participated in the drilling of twenty widely spread exploratory tests to earn an interest in this large parcel of land. Ten wells were successful gas discoveries, and ten wells were dry.

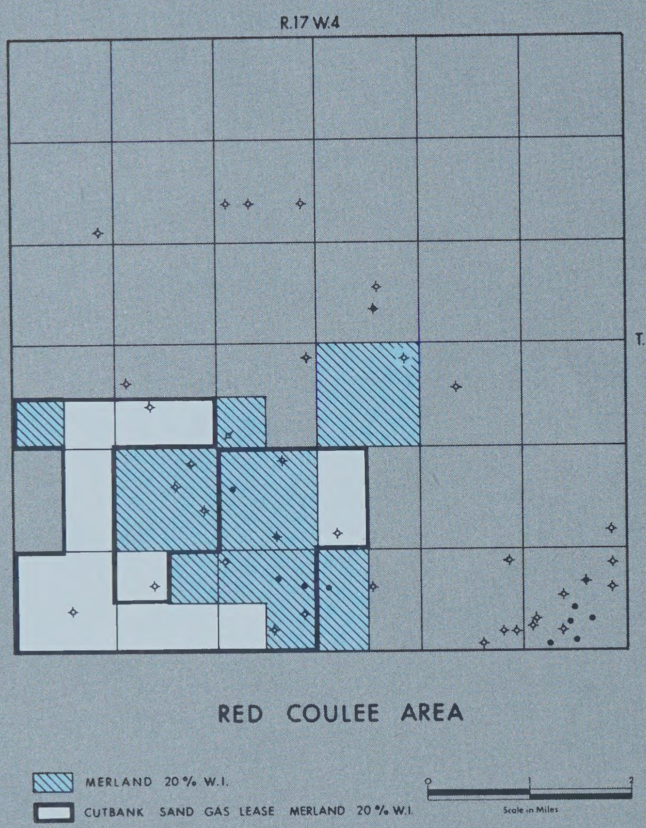
During 1974 a further ten wells are planned to be drilled, to increase production to 8 million cubic feet per day, of which 1.7 million cubic feet would be Merland's share. Voyager Petroleum and Albany Oil and Gas are the project operators.

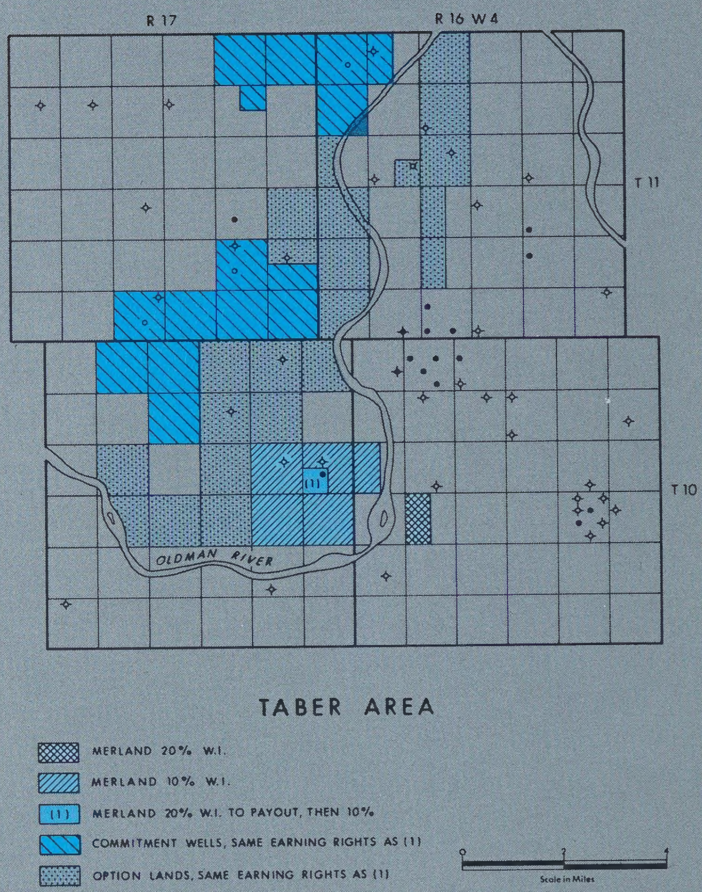
JARROW

Acreage: 13,760 (gross) — 4,860 (net)

In March, 1974, Merland sold its interests in the Jarrow Gas Unit No. 1 and the proposed No. 2 Unit, encompassed within the area of Twp. 45, Rge. 10 for approximately $1,000,000.

The remaining eighteen to twenty sections in which Merland has retained working interests ranging between twenty percent and fifty percent are believed to have commercially viable gas prospects. Prior to the sale, Merland, as operator, drilled an exploratory test on a portion of this retained acreage and successfully completed a gas well. Another well is planned to be drilled during the current year.





RED COULEE

Acreage: 5,400 (gross) — 1,088 (net)

Late in 1973 Merland participated in the drilling of one successful oil well and two dry holes with Canus Petroleum, the project operator.

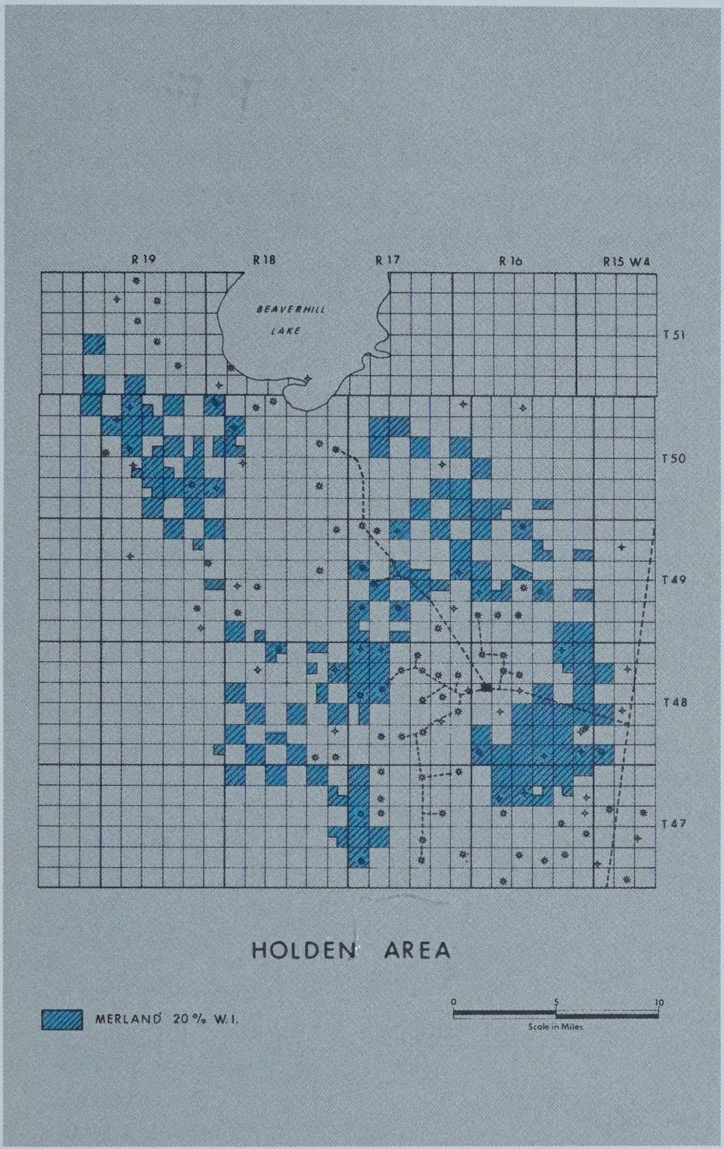
During 1974 four additional wells are planned. Merland's share of production should average approximately seventy barrels per day initially and waterflooding should double productive capacity.

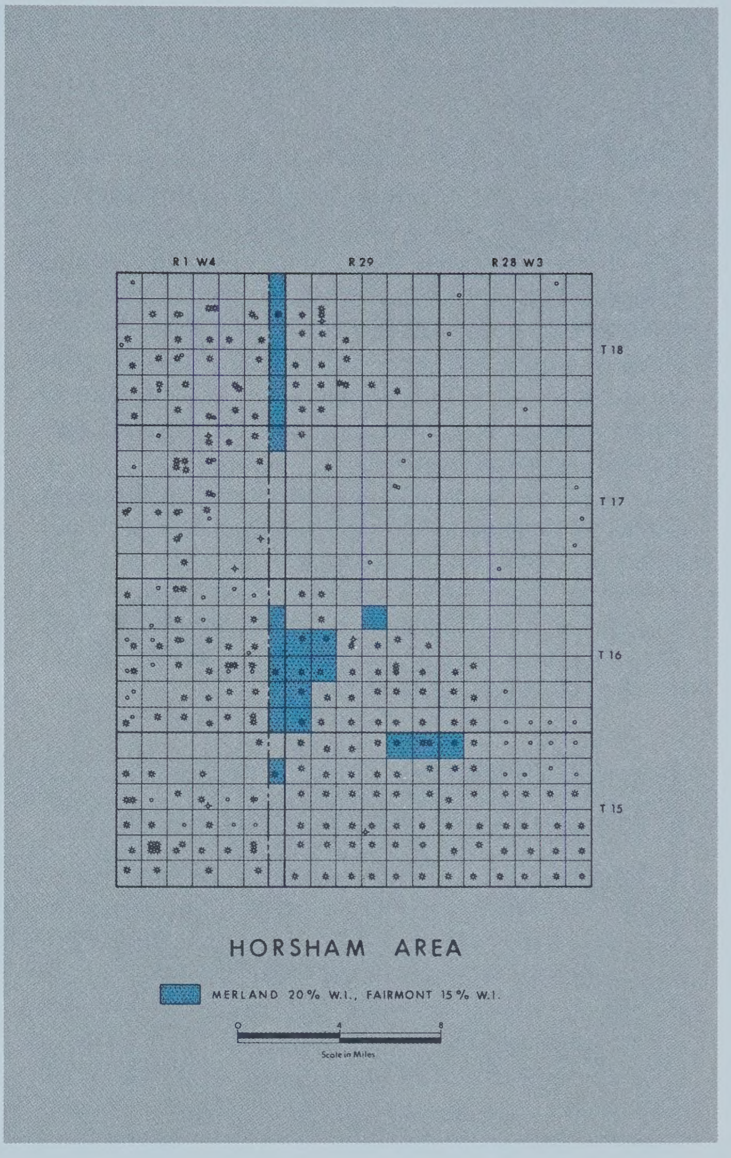
TABER

Acreage: 23,040 (gross) — 2,304 (net)

Early in 1974 Merland participated, with Canus Petroleum as project operator, in the drilling of four successful oil wells in the area.

Ten additional wells are planned during the current year in this general area and it is expected that crude oil presently being trucked to markets will be tied into nearby transmission lines.





HOLDEN

Acreage: 120,000 (gross) – 24,000 (net)

During 1973 Voyager Petroleums, the operator, drilled thirty-five exploratory tests, twenty of which were completed as gas wells (fourteen in Holden and six in North Hamilton Lake). The remaining fifteen wells were abandoned.

In 1974 one additional well is planned to be drilled and four of the earlier wells are to be connected to the Holden gathering system to produce 8 million cubic feet per day, 1.6 million cubic feet per day, being the net to Merland.

The Holden acreage has the potential for increasing production substantially with further drilling and development.

Some of the Hamilton wells could be put into production late 1974.

HORSHAM

Acreage: 10,885 (gross) – 3,810 (net)

In 1973 four shallow horizon gas wells were drilled and completed.

With Merland as project operator, development work planned for the current year will include the drilling of thirty-four wells, installation of compression facilities and a twenty-five-mile gathering system. The Company's share of production is estimated at 2.8 million cubic feet per day.

MERLAND EXPLORATIONS LIMITED

PRODUCTION

GAS – Daily rates of gas production net to Merland are presently in excess of 15 million cubic feet per day. This rate will be expanded to something over 35 million cubic feet per day by the last quarter of 1974. Company operated plants at Bantry, Medicine Hat, Bindloss, South Alderson and Horsham will account for approximately 75% of this total, the balance of production coming from participation through production, operated by others.

OIL – There are now 5 operating oil wells under Canus management and while some deliveries are currently being made by truck, it is expected that following development drilling and water-flood projects at Red Coulee and Taber, pipelined daily rates of production will increase to 500-600 barrels per day. Merland's share is 20%.

RESERVES

The Company has traditionally reported its estimates of reserves on a net, after royalty basis. In early 1974 the Alberta Government, from whom most of the Company's producing acreage is leased, removed the previous ceiling on royalty rates. Under these conditions, where the royalty rate varies with price, the Company believes that it would be more meaningful to present its reserve estimates on a gross basis, showing the Company's interest in reserves before deduction of royalty payable to governments or other lessors.

The following table is the Company's estimate of proven and probable reserves before deduction of lessors royalty, with previous years restated on the same basis.

	April 1974	1972	1971
Natural Gas			
Billions of Cubic Feet	230	50	15
Oil			
Thousands of Barrels	600	–	–

MINING DIVISION

Merland continues to maintain its 10% working interest in the Yorbeau Mines Ltd. properties in Chibougamau. The Managers, Campbell Chibougamau Ltd., feel confident that a small gold property located at Gwillam Lake, about five miles from the mill, is a viable mining proposition and feasibility studies are underway to consider commencing operations this summer.

The Company investigated, by drilling, a nickel copper prospect at Reynar Lake, Ontario but results were disappointing. No further mining exploration ventures are planned during 1974 as the Company plans to concentrate all its energy and resources on the expansion of its oil and gas division.

Dr. Gordon Siddeley requested a leave of absence and has undertaken to manage an exploration project abroad, for other groups. This is an opportunity to thank him for his diligence and loyalty to the Company during his four-year term of employment.

FLOORING DIVISION

Lumber prices more than doubled during the past year and as a consequence, sales suffered. Nevertheless, the division contributed profits in excess of $50,000, a very commendable performance under the circumstances. As competitive products to hardwood flooring rise in price, it is expected that the Parquet division will, during the latter part of this year, regain its traditional share of the market on profitable terms.

FINANCIAL REVIEW

Merland and its subsidiaries had a consolidated cash flow of $185,000 in 1973. Consolidated net loss for the period was $55,000 after deducting non cash items including depreciation, depletion and amortization of $124,000 and mining project expenses written off of $101,000.

In October, 1973 your Company successfully completed a private placement of 450,000 common shares at $2.22 per share and $2,500,000 convertible income debentures at par to provide the capital required for the purchase of the new subsidiary companies and the exploration and development program for the balance of 1973. Total capital expenditures of the petroleum division including assets acquired in the purchase of the above companies amounted to $7,037,000 in 1973.

Bank lines of credit have been increased to in excess of $7 million and will provide adequate financing for the 1974 petroleum division program.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Merland Explorations Limited and subsidiaries as of December 31, 1973, and the consolidated statements of profit and loss and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company and its subsidiaries as of December 31, 1973, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change to the deferral method of income tax allocation referred to in note 9 to the financial statements, on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

Chartered Accountants

Toronto, Ontario.
April 24, 1974

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ASSETS

Current assets:	1973	1972
Cash and term deposits	$ 753,870	81,461
Marketable securities, at the lower of cost or written-down value (quoted market value, 1973 — $51,053; 1972 — $243,133)	51,727	218,473
Accounts receivable	193,180	114,128
Funds receivable as project operating manager	1,332,406	115,648
Funds paid in advance to project operating managers	120,000	45,308
Inventories, at the lower of cost or replacement cost	193,847	55,080
Mortgage principal due within one year	—	4,760
Prepaid expenses	19,750	4,432
Total current assets	2,664,780	639,290
7½% mortgage receivable	—	126,471
Less current portion	—	4,760
	—	121,711
Fixed assets at cost less accumulated depreciation:		
Building, machinery and equipment	186,354	183,951
Less accumulated depreciation	127,098	115,037
	59,256	68,914
Land	42,000	42,000
	101,256	110,914
Project expenses at cost, less amounts written off:		
Interests in petroleum and natural gas leases, rights and gathering system together with development thereon (note 3)	7,392,418	483,028
Deferred mining exploration costs	33,981	121,768
	7,426,399	604,796
Investment in shares of mining and oil exploration companies, at cost	50,000	86,000
Expenses on issue of shares and debentures, net of accumulated amortization — $1,921 (1972 — nil)	208,317	86,687
Incorporation expenses	1,407	748
	$10,452,159	1,650,146

See accompanying notes

alance Sheet

1973
res for 1972 (note 9)

LIABILITIES

	1973	1972
Current liabilities:		
Accounts payable and accrued expenses	$ 1,683,644	174,655
Debenture interest payable (note 5)	42,192	—
Sales and other taxes payable	8,558	13,392
Income taxes payable by subsidiary companies	15,851	5,347
Funds received in advance as project operating manager	12,074	62,682
Bank loans repayable within one year (note 4)	810,000	79,200
Total current liabilities	2,572,319	335,276
Accounts payable	—	25,000
Deferred income taxes (note 9)	295,300	22,200
Bank loans, non-current portion (note 4)	3,143,200	361,800
7% convertible income debentures, series A due October 1, 1983 (note 5)	2,500,000	—
Shareholders' equity:		
Capital stock (note 6):		
Authorized — 7,500,000 shares without nominal or par value		
Issued and fully paid — 4,642,500 shares (1972 — 4,090,000 shares)	3,039,532	1,948,907
Deficit (note 5)	(1,098,192)	(1,043,037)
	1,941,340	905,870
	$10,452,159	1,650,146

On behalf of the Board:

GEORGE T. SMITH, Director

WILMOT L. MATTHEWS, Director

solidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND DEFICIT

Year ended December 31, 1973

with comparative figures for 1972 (note 9)

	1973	1972
Net sales:		
Oil and natural gas	$ 188,927	26,112
Parquet Flooring division	487,210	601,583
	$ 676,137	627,695
Net profit from operations before the undernoted items	$ 105,144	50,249
Depreciation, amortization and depletion	121,708	14,261
Interest — bank	71,613	20,411
— debentures (including amortization of expenses of $1,921)	44,113	—
	237,434	34,672
Net profit (loss) from operations	(132,290)	15,577
Other income (charges):		
Gain on sale of interests in projects — net	—	109,208
Gain (loss) on sale of investments — net	126,796	(137,697)
Decrease in provision for decline in value of marketable securities	—	206,662
Project expenses written off	(101,486)	(92,763)
Interest	33,930	10,494
Other	8,745	1,823
	67,985	97,727
Net profit (loss) before taxes on income and extraordinary item	(64,305)	113,304
Taxes on income (note 9)	(9,150)	44,000
Net profit (loss) before extraordinary item	(55,155)	69,304
Extraordinary item:		
Reduction of income taxes due to application of losses sustained in prior years (note 9)	—	13,800
Net profit (loss)	(55,155)	83,104
Deficit, beginning of year	(1,043,037)	(1,126,141)
Deficit, end of year	$(1,098,192)	(1,043,037)
Earnings (loss) per share (note 8):		
Net profit (loss) before extraordinary item	$ (.013)	.017
Extraordinary item	—	.003
Net profit (loss)	$ (.013)	.020

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
Year ended December 31, 1973
with comparative figures for 1972 (note 9)

	1973	1972
Funds provided:		
Operations:		
Net profit (loss)	$ (55,155)	83,104
Add (deduct) items not involving funds:		
Deferred taxes (note 9)	(15,950)	22,200
Depreciation, amortization and depletion	123,629	14,261
Project expenses written off	101,486	92,763
Loss on sale of mortgage	30,978	–
Gain on sale of interests in projects	–	(109,208)
	240,143	20,016
Funds provided by operations	184,988	103,120
Deferred taxes acquired on purchase of subsidiary companies (notes 2 and 9)	289,050	–
Reduction of long-term portion of mortgage	90,732	4,760
Increase in non-current portion of bank loans, including $2,167,500 acquired on purchase of subsidiary companies (notes 2 and 4)	2,781,400	73,800
Proceeds from issue of share capital (note 6)	1,090,625	5,625
Proceeds from sale of interests in projects	4,134	113,032
Proceeds from sale of debentures (note 5)	2,500,000	–
Proceeds from sale of investments	36,000	–
	6,791,941	197,217
Total funds provided	6,976,929	300,337
Funds used:		
Project expenses, including petroleum and natural gas interests of $4,327,945 acquired on purchase of subsidiary companies (note 2)	7,036,869	323,701
Purchase of fixed assets	2,403	5,555
Decrease in accounts payable excluded from current liabilities	25,000	13,000
Expenses incurred on issue of share capital and debentures	123,551	–
Other	659	–
Total funds used	7,188,482	342,256
Net decrease in working capital	$ 211,553	41,919
Working capital, beginning of year	$ 304,014	345,933
Working capital, end of year (note 4)	92,461	304,014
Net decrease in working capital	$ 211,553	41,919

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1973

1. **Principles of Consolidation:**

The consolidated financial statements include the accounts of the following wholly-owned subsidiary companies:

(i) Acquired prior to December 31, 1972:
- Northwest Oils Limited
- Amerco Investments Limited
- Parquet Flooring Company Limited

(ii) Acquired October 4, 1973:
- Conlac Gas Limited
- Elkwater Natural Gas Limited
- Fairmont Gas Limited
- Hatton Gas Company Limited
- South Eastern Utilities Limited

The consolidated financial statements include the results of operations of the five subsidiary companies acquired during the year from the date of acquisition to December 31, 1973. Details of net assets acquired are disclosed in note 2 to the consolidated financial statements.

2. **Purchase of Subsidiary Companies:**

On October 4, 1973, the company acquired for a cash consideration of $1,900,000, all of the issued shares of five petroleum companies located in Alberta (note 1). Expenses in connection with this acquisition amounted to $95,215. Details of net assets acquired are as follows:

	Book Value in Acquired Companies	Fair Value
Petroleum and natural gas interests	$3,374,639	4,327,945
Other non-current assets	659	659
	3,375,298	4,328,604
Deferred income taxes	289,050	289,050
Bank loans	2,657,500	2,657,500
Less amounts due within one year	490,000	490,000
	2,167,500	2,167,500
	918,748	1,872,054
Working capital	123,161	123,161
Nets assets acquired	$1,041,909	1,995,215

The company is amortizing the excess purchase cost of $953,306 related to petroleum and natural gas interests over production of the estimated proven and probable reserves of the companies on the basis of independent appraisals obtained.

3. **Interest in Petroleum and Natural Gas Properties:**

The costs of acquiring interests in proven and unproven oil and gas properties, and the development costs of wells are capitalized when incurred. Depletion is provided on property costs, including development costs of productive wells, on the unit of production method based on the total of estimated proven and probable reserves of oil and gas, on an area by area basis.
Costs of non-productive areas are charged to expense when the properties are abandoned.

4. **Bank Loans:**

The bank loans are secured by a general assignment of book debts and by the companies' interests in petroleum and natural gas contracts covering production proceeds from certain gas properties.
Subsequent to December 31, 1973, the companies were granted additional bank lines of credit of approximately $1,000,000 relating to expenditures incurred prior to that date. The terms of the lines of credit call for repayment in equal amounts over a five year period.

5. **7% Convertible Income Debentures, Series A, due October 1, 1983:**

The 7% convertible income debentures were issued on October 4, 1973 pursuant to a Trust Indenture. The Trust Indenture provides that under certain circumstances:

(i) Payment of interest may be deferred.
(ii) The debentures may be converted into capital stock of the company as set out in note 6.
(iii) The debentures may be redeemed at the option of the company at specified premiums.

The company has agreed to establish a sinking fund for annual payments to the Trustee commencing in 1979 of an amount sufficient to retire $500,000 principal amount of debentures in each of the years 1979 to 1982.

The debentures are not secured by any charge against the assets of the company. Various covenants of the Trust Indenture restrict the company in regard to declaration of dividends and the creation of any charge against the company's assets.

6. **Capital Stock:**

During the year, the following common shares were issued for cash:

	Number of Shares	Amount
Exercise of options	102,500	$ 90,625
Issued to purchasers of 7% debentures	450,000	1,000,000
	552,500	$1,090,625

At December 31, 1973, 90,000 shares were reserved for the exercise of options granted to key employees, exercisable at varying dates to October 31, 1975 at prices ranging from $1.24 to $2.25 per share.

The 7% convertible income debentures are convertible until September 30, 1977 into the capital stock of the company at $2.78 per share. Accordingly, 900,000 shares have been reserved for the conversion of these debentures. Subsequent to September 30, 1977 and until September 30, 1983 the debentures are convertible at $4.00 per share.

7. **Statutory Information:**

The company has nine directors and four officers, two of whom are directors. During the year ended December 31, 1973, the aggregate remuneration paid to officers for their services as officers was $28,200. No remuneration was paid to the directors for their services as directors. The company is charged a management fee which includes charges for the services of certain officers.

8. **Earnings (Loss) per Share:**

Fully diluted earnings (loss) per share have not been presented as the effect of exercising the outstanding options and conversion privileges would be anti-dilutive.

9. **Income Taxes:**

In accordance with the recommendations of the Canadian Institute of Chartered Accountants, the company has retroactively changed its basis for accounting for income taxes to the tax allocation method. As a result the 1972 comparative figures have been restated to show the effect of tax allocation in that year. The net profit previously reported of $105,304 has been changed to $83,104 with a corresponding increase of $22,200 in the deficit. Earnings per share have similarly decreased from those previously reported of $.026 to $.020.

If the company had not changed its method of accounting for income taxes, the net loss for the current year would have been $65,105 and the net loss per share would have been $.015.

Taxes on income are comprised of the following:

	1973	1972
Currently payable by a subsidiary	$ 6,800	8,000
Deferred	(15,950)	36,000
	$(9,150)	44,000

MERLAND EXPLORATIONS LIMITED

Directors	John A. Cameron		Calgary, Alberta
	Robert Law, Q.C.		Toronto, Ontario
	Brian D. Marshall		Toronto, Ontario
	William T. Mason		Freelton, Ontario
	Wilmot L. Matthews		Toronto, Ontario
	William O. Parlee, Q.C.		Edmonton, Alberta
	George T. Smith, B.A.Sc.		Toronto, Ontario
	Donald R. Watt		Toronto, Ontario
Officers	George T. Smith, B.A.Sc.	*President*	Toronto, Ontario
	John A. Cameron	*Vice-President*	Calgary, Alberta
	Peter M. Oley, P.Eng.	*Vice-President*	Calgary, Alberta
	Robert Law, Q.C.	*Secretary-Treasurer*	Toronto, Ontario
Division Managers	Patrick H. Belliveau, P.Eng.	*Operations Manager, Petroleum Division*	Calgary, Alberta
	E. A. F. Trewinnard	*Land Manager, Petroleum Division*	Calgary, Alberta
	Fred Brade	*Manager, Flooring Division*	Hamilton, Ontario
Executive Offices	1000 Royal Bank Building, 335 Eighth Avenue, S.W.		Calgary, Alberta
Auditors	Peat, Marwick, Mitchell & Co.		Toronto, Ontario
Registrar and Transfer Agent	Guaranty Trust Company of Canada		Vancouver, B.C. Calgary, Alberta Toronto, Ontario
Bankers	The Royal Bank of Canada		Toronto, Ontario Calgary, Alberta
Stock Listing	The Toronto Stock Exchange		

Printed in Canada.

To the Shareholders:

Consolidated net income for the six months ended June 30, 1973, was $118,950 or 2.9 cents per share. Included in the Company's overhead were the costs of a gradual buildup of staff and facilities in preparation for the expanded development of the western Canadian gas and oil properties. Substantial funds were expended during the second quarter in this area of activity. In order to increase working capital additional bank lines of credit have been established on the basis of the positive results of the drilling programme and the mortgage receivable was sold in July, 1973, for approximately $93,000.

Drilling activity during 1973 has resulted in forty-three successful gas wells of sixty-four drilled and four oil wells of four drilled. Gas production is planned to commence by January, 1974, in the Bantry, Westlock, Viking and Horsham properties, and some oil production has begun from the Bantry area with further testing to be undertaken in the fall. Contracts have been renegotiated to twenty-six cents per Mcf on the Jarrow, Bantry and Viking properties.

The Company has completed its evaluation of the five companies in Alberta referred to in the Annual Report and intends to exercise the option to purchase the shares of these companies on completion of the private placement of debt and equity securities of the Company presently being undertaken by Fry Mills Spence Limited. The formal closing of this financing would take place simultaneously with the formal closing of the acquisition of the shares of these companies.

Based on the completion of the purchase of the five companies referred to above and the significant results achieved in the Company's current drilling programme, it is estimated that cash flow in 1973 should exceed $200,000 and in 1974 should approach $1.5 million.

For the Board of Directors

GEORGE T. SMITH
President

August 16, 1973

Printed in Canada

Merland Explorations Limited

Interim Report
SIX MONTHS ENDED
JUNE 30th, 1973

Merland Explorations Limited

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Six Months Ended June 30, 1973
With Comparative Figures for 1972
(Unaudited)

	1973	1972
Funds provided:		
Operations:		
Net profit	$ 118,950	$ 183,386
Add charges not involving funds:		
Depreciation and amortization	9,797	9,985
Project exploration expenses written off	267	1,000
	$ 10,064	$ 10,985
	$ 129,014	$ 194,371
Reduction of long-term portion of mortgage	$ 2,735	$ 2,125
Increase in long-term portion of bank loans	55,600	—
Proceeds from sale of fixed assets	—	1,350
Proceeds from issue of share capital	35,625	—
Proceeds from sale of investment in oil company	36,000	—
	$ 129,960	$ 3,475
Total funds provided	$ 258,974	$ 197,846
Funds used:		
Reduction in non-current bank advances and accounts payable	25,000	70,000
Purchase of fixed assets	2,474	—
Project exploration expenses, net of amounts recovered	499,971	57,907
Investment in option purchase and investigation	38,529	—
Expenses on issue of shares	736	—
Total funds used	$ 566,710	$ 127,907
Net increase (decrease) in working capital	$ (307,736)	$ 69,939
Working capital, beginning of year	$ 304,014	$ 345,933
Working capital, end of year	(3,722)	415,872
Net increase (decrease) in working capital	$ (307,736)	$ 69,939

Merland Explorations Limited

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND DEFICIT

Six Months Ended June 30, 1973
With Comparative Figures for 1972
(Unaudited)

	1973	1972
Net sales:		
Oil and natural gas	$ 31,722	$ 7,258
Parquet flooring division	253,869	265,399
	$ 285,591	$ 272,657
Net profit (loss) from operations before the undernoted items	$ (5,158)	$ 13,657
Depreciation and amortization	9,797	9,985
Interest	21,908	10,942
	$ 31,705	$ 20,927
Net profit (loss) from operations	$ (36,863)	$ (7,270)
Other income (charges):		
Gain on sale of interests in projects (net)	—	$ 106,455
Profit on sale of securities	154,181	—
Decrease in provision for decline in value of marketable securities	—	82,521
Project exploration expenses written off	(267)	(1,000)
Interest and dividends	4,051	4,827
Other	881	(947)
	$ 158,846	$ 191,856
Net profit before income taxes	$ 121,983	$ 184,586
Income taxes	3,033	1,200
Net profit	$ 118,950	$ 183,386
Deficit, beginning of period	(1,020,837)	(1,126,140)
Deficit, end of period	$ (901,887)	$ (942,754)
Earnings per share	$ .029	$ .045